

SECRET

EXCISE

D18

PAGE: 1235

INQUIRE=DOC15D
ITEM NO=00065848
ENVELOPE

CDSN = LGX969 MCN = 91189/14012 TOR = 911891428
OTTSZYUW RUEKJCS4346 1891428-SSSS--RUEALGX.
ZNY SSSSS

HEADER

O 081428Z JUL 91

FM JOINT STAFF WASHINGTON DC
INFO RUEADWD/OCSA WASHINGTON DC
RUENAAA/CNO WASHINGTON DC
RUEAHQA/CSAF WASHINGTON DC
RUEADWD/PTC WASH DC
RUSNNOA/USCINCEUR VAHINGEN GE
RUFGAID/USEUCOM AIDES VAHINGEN GE
RUCQVAB/USCINCSOC INTEL OPS CEN MACDILL AFB FL
RUCJACC/USCINCCENT MACDILL AFB FL//CARA//
RUEOACC/CDRPSYOP GP FT BRAGG NC//ASOF-POG-SB//
RUEAHQA/HQ AFIA WASHINGTON DC
RUEALGX/SAFE

O 081405Z JUL 91

FM AMEMBASSY ABU DHABI
TO RUEHC/SECSTATE WASHDC IMMEDIATE 2664
INFO RUEATRS/SECTREASURY WASHDC IMMEDIATE
RUFHLD/AMEMBASSY LONDON IMMEDIATE 4572
RUEHBM/GULF COOPERATION COUNCIL COLLECTIVE IMMEDIATE
BT

CONTROLS

S E C R E T SECTION 01 OF 03 ABU DHABI 04346

TREASURY FOR OASIA/IC - DAS SCHOTTA

E.O. 12356: DECL: OADR

/***** THIS IS A COMBINED MESSAGE *****/

BODY

TAGS: EFIN, PREL EINV, EAID, UK, TC, GCC
SUBJECT: BANK OF ENGLAND ACTION ON BCCI

REF: ABU DHABI 4311

1. SECRET - ENTIRE TEXT.

2. SUMMARY: THE BANK OF ENGLAND'S (BOE) FREEZE OF BCCI ASSETS HAS SHOCKED THE EMIRATES. THE IMPACT IS LIKELY TO BE PARTICULARLY STRONG IN SOME BUSINESSES AND ONE OR TWO BANKS WHICH ARE HIGHLY EXPOSED IN BCCI. NO ONE KNOWS WHY BOE ACTED AT THIS POINT WHEN THE UAE THOUGHT IT WAS ON THE VERGE OF A SUCCESSFUL RESTRUCTURING. POLITICALLY, THERE IS SOME CRITICISM OF THE BRITISH MOVE BUT IN

SECRET

DEPARTMENT OF STATE

() RELEASE () DECLASSIFY
(X) EXCISE (X) DECLASSIFY
() DENY IN PART
() DELETE Non-Responsive Info
FOIA Exemptions B1
PA Exemptions

IS/FPC/CDR

MR Cases Only:
EO Citations

TS authority
() CLASSIFY as () S or () C OAD
() DOWNGRADE TS to () S or () C OAD

DRP Date 9/8/91

B1

SECRET

PAGE:1236

BANKING CIRCLES THE CRITICISM IS DIRECTED MORE TOWARDS BCCI AND THE FACT THAT IT WAS NOT RESTRUCTURED LONG BEFORE NOW. PRINCIPAL IMMEDIATE CONCERN IS FOR THE REPUTATION OF PRESIDENT ZAYED AND CROWN PRINCE KHALIFA AND OTHERS. THERE IS ALSO SOME FEAR THAT BOE HAS UNCOVERED NEW EVIDENCE THAT MIGHT AFFECT ABU DHABI DIRECTLY. AT THIS POINT THERE IS CONSIDERABLE UNCERTAINTY AS TO THE ACTUAL SHORT AND LONG TERM FINANCIAL IMPACT ON ABU DHABI. ONE THING DOES SEEM CERTAIN, HOWEVER; UNTIL THE WATERS CLEAR A BIT, IT IS HIGHLY UNLIKELY THAT ABU DHABI WILL BE MAKING ANY NEW LARGE CASH COMMITMENTS, NO MATTER HOW WORTHY THE CAUSE OR WHO IS DOING THE ASKING. END SUMMARY.

3. THE BANK OF ENGLAND'S ACTION FREEZING BCCI ASSETS SENT SHOCK WAVES THROUGH THE ABU DHABI BANKING COMMUNITY.

B1

B1

1 SAID THAT THE BOE WAS CERTAINLY WITHIN ITS RIGHTS TO TAKE THIS ACTION. HOWEVER, HE EXPRESSED DISAPPOINTMENT THAT BOE HAD NOT BEEN ABLE TO PROCEED ON THE BASIS OF RESTRUCTURING.

B1

IMMEDIATE DESPATCH OF BOE OFFICIAL TO ABU DHABI TO DISCUSS FUTURE ACTIONS. THAT VISIT IS NOW TAKING PLACE.

B1

5. IN THE PLANS HAD BEEN PUTTING TOGETHER FOR RESTRUCTURING, THE TOTAL RESCUE PACKAGE WOULD HAVE COST THE UAE ABOUT USD 4 PLUS BILLION OVER SEVERAL YEARS, ACCORDING TO BANKING CIRCLES HERE.

B1

TOLD AMBASSADOR THAT HE HAS QUITE

SECRET

SECRET

PAGE:1237

CONFIDENT THIS RESTRUCTURING WOULD TAKE PLACE. ONE PRESS REPORT INDICATES THAT DESPITE THE ACTION TO FREEZE ASSETS AND PUT BCCI IN RECEIVERSHIP, THE BOE IS STILL ASKING THE GOVERNMENT HERE TO STAND BEHIND BCCI'S LIABILITIES. IT IS UNLIKELY, HOWEVER, THAT ABU DHABI AUTHORITIES WILL BE AS INCLINED TO BE GENEROUS WITH RESOURCES UNDER THE CIRCUMSTANCES.

6. IT IS HARD TO GAUGE THE REACTION OF PRESIDENT ZAYED AND CROWN PRINCE KHALIFA, THE PRINCIPAL BCCI SHAREHOLDERS IN ABU DHABI. THE DAY OF THE FREEZE ZAED LEFT FOR HOLIDAY AND WAS NOT INFORMED OF THE ASSET FREEZE PRIOR TO HIS DEPARTURE. ✓

FOR HIS
PART, KHALIFA IN HIS MEETING WITH CONGRESSMAN OWENS

/***** BEGINNING OF SECTION 002 *****/
THAT MORNING SEEMED TO HAVE NOTHING ON HIS MIND AND WAS IN GOOD SPIRITS AND QUITE JOVIAL.

7. IN OTHER, POLITICAL CIRCLES THERE IS SOME CRITICISM OF THE BRITISH ACTION. []

BITTER THAT BRITAIN HAD NOT WARNED THE ABU DHABI POLITICAL STRUCTURE OF ITS POLITICAL ACTION. HE SEEMED NOT TO UNDERSTAND THAT SUCH A WARNING WOULD BE A CONTRADICTION IN TERMS, PARTICULARLY GIVEN BCCI'S PAST RECORD AND BOE'S SUSPICIONS.

HE FELT THAT THIS COULD HAVE A SIGNIFICANT NEGATIVE IMPACT ON FUTURE BUSINESS IN THE EMIRATES, AND HE MAY WELL BE RIGHT. [] PARTICULARLY CONCERNED ABOUT THE BRITISH TABLOID PRESS AND THE KIND OF DISPLAY THEY WOULD MAKE OF THIS ISSUE, AS WELL AS THE DEBATES THAT MIGHT TAKE PLACE IN COMMONS.

8. INITIAL REACTION IN ABU DHABI AND DUBAI BANKING CIRCLES HAS BEEN BROADLY CONDEMNATORY OF BCCI. THE BANKERS WE HAVE HAD AN OPPORTUNITY TO TALK TO FEEL THAT BCCI HAD IT COMING,

1 THEY FEEL THAT THE PRINCIPAL

SECRET

SECRET

PAGE:1238

SHAREHOLDERS SHOULD HAVE CLEANED HOUSE WHEN THEY FIRST TOOK OVER OWNERSHIP.

1. _____ SAID IT HAD BEEN INSANE TO KEEP THE OLD MANAGEMENT IN PLACE WHICH HAD A VESTED INTEREST IN COVERING UP THEIR OWN CRIMES.

9. _____ THE CLOSURE OF BCCI IN THE EMIRATES WOULD CREATE CONSIDERABLE DISLOCATION FOR BUSINESS AND PRIVATE INDIVIDUALS AND WOULD HAVE A TIDAL EFFECT IN SOME OTHER BANKS, PARTICULARLY WITH THE INDEPENDENTLY CHARTERED BANK OF COMMERCE AND CREDIT (EMIRATES) (BCCE). BCCE HAS REMAINED OPEN, /

_____ BCCI OWNS 40 PERCENT OF BCCE, BUT MORE IMPORTANTLY, AT LEAST AS OF LAST SUMMER, _____ BCCE HAD AN AMOUNT EQUAL TO THREE TIMES ITS DEPOSITS INVESTED IN BCCI. EVEN IF THAT CONDITION HAS IMPROVED SOMEWHAT, IT IS LIKELY THAT BCCE STILL HAS CONSIDERABLE EXPOSURE IN BCCI WHICH ACTED AS ITS CORRESPONDENT BANK INTERNATIONALLY. THIS WILL PUT ENORMOUS STRAIN ON BCCE. BECAUSE OF THIS AND BECAUSE OF PERSONAL AND BUSINESS DEPOSITS IN BCCI, THE ABU DHABI GOVERNMENT IS SEEKING BOE AGREEMENT TO REOPEN BCCI BRANCHES HERE.

10. THE NATIONAL BANK OF ABU DHABI (NBAD), THE EFFECTIVE CENTRAL BANK OF ABU DHABI, _____ HAS NO EXPOSURE IN BCCI. JUST A FEW DAYS AGO THERE WAS AN ORDER _____ TO ADIA TO COMMIT USD 600 MILLION TO BCCI AS PART OF THE RESTRUCTURING PACKAGE HE HAS PUTTING TOGETHER. THAT ORDER, ACCORDING TO AN ADIA SOURCE, WAS RECONFIRMED IN WRITING THE DAY BEFORE THE BOE MOVED, AND ADIA INDEED COMMITTED THE FUNDS THROUGH NBAD. HOWEVER, _____ NBAD WAS ABLE TO STOP THE DEPOSIT BEFORE THE DOORS CLOSED ON BCCI, THUS REDUCING ADIA'S EXPOSURE. ADIA IS STILL A SHAREHOLDER IN BCCI, BUT HAS GENERALLY STAYED AWAY FROM MOVING FUNDS THROUGH THAT ORGANIZATION. THUS, ADIA, AT LEAST, APPEARS TO HAVE COME OUT OF THIS REASONABLY WHOLE.

11. IT IS VERY EARLY IN THE DAY YET, AND THE IMPLICATIONS OF THE BOE ACTION ARE NOT ALL FULLY CLEAR. ONE IMMEDIATE EFFECT FOR US MAY BE GREATER RELUCTANCE ON THE PART OF THE UAE TO MAKE FURTHER CASH COMMITMENTS TO FOREIGN ASSISTANCE [

SECRET

SECRET

PAGE:1239

/***** BEGINNING OF SECTION 003 *****/

B1

WALKER

ADMIN
BT

#4346

NNNN

SECRET